



WEEKLY OUTLOOK



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LARGER CROPS, HIGHER PRICES

The USDA's November *Crop Production* report contained the expected increase in the forecast of the 2001 U.S. corn crop. That crop is now forecast at 9.546 billion bushels, 116 million larger than the October forecast and 308 million larger than the September forecast. The crop, however, is expected to be 422 million bushels smaller than the 2000 crop, even though the U.S. average yield forecast of 138 bushels per acre is 0.9 bushel larger than last year's yield. The smaller crop reflects the 3.5 million acre reduction in corn planting in 2001.

Even though U.S. corn exports and export sales are trailing the pace of a year ago, the USDA still projects corn exports for the current marketing year at 2.05 billion, 113 million more than exported last year. Domestic feed use is expected to decline by 90 million bushels and domestic processing use is forecast to increase by 63 million bushels. These projections are unchanged from those of last month. Year ending stocks are now projected at 1.574 billion bushels, the smallest inventory in four years and 325 million less than stocks at the start of the year. The projections of world year ending stocks of corn and all coarse grains were increased from the October projections, but are smaller than stocks at the start of the year.

One of the likely reasons that the USDA continues to project an increase in corn exports is the prospect for a smaller crop in Argentina. The November projection is 10 percent smaller than both the October projection and the size of last year's crop. Even though world corn trade is expected to decline, the U.S. should gain market share from both Argentina and China.

The November *Crop Production* report contained a small unexpected increase in the forecast of the 2001 U.S. soybean crop. At 2.923 billion bushels, the crop forecast is 16 million larger than the October forecast, 89 million larger than the September forecast, and 254 million larger than the 2000 harvest. The U.S. average yield is forecast at 39.4 bushels per acre, 1.3 bushels higher than last year's average and the second highest on record, 2 bushels below the 1994 record. The forecast is 0.2 bushel above the October forecast, reflecting higher forecasts in nine states and lower forecasts in five states.

Even though the pace of soybean export sales has been extremely large, the USDA did not change the projection of U.S. soybean exports for the current year. At 980 million bushels, exports are expected to be 18 million bushels less than exported last year. Prospects for another record soybean harvest in South America in 2002 suggests that the pace of U.S. soybean exports will once again be very slow during the last half of the 2001-02 marketing year. The 2002 South American crop is now projected at 2.68 billion bushels, 37 million larger than the October projection and 162 million larger than the record harvest of 2001.

The domestic crush of soybeans is projected at 1.665 billion bushels, 5 million larger than the October projection and 24 million larger than the record crush of the 2000-01 marketing year. The larger projection reflects prospects for a small increase in domestic meal feeding and a continuation of relatively large meal exports.

By the end of the 2001-02 marketing year, stocks of U.S. soybeans are expected to total 355 million bushels, up from 248 million at the start of the year. Based on expectations of a large increase in exports, soybean oil stocks are expected to be smaller at the end of the year than at the start of the year. The decline, however, will still leave inventories at a very large level.

On a world basis, soybean inventories are expected to be marginally larger at the end of the year than at the beginning of the year. This continues a pattern of modest growth in stocks that has occurred over the past two years.

The USDA projects the marketing year average price of corn in a range of \$1.80 to \$2.20 per bushel, \$.10 lower than projected last month. The average price for the 2000-01 marketing year is estimated at \$1.85. For soybeans, the season's average price is projected in a range of \$3.90 to \$4.70, the same as projected last month. The average price for the 2000-01 marketing year is estimated at \$4.55.

While almost all of the changes in the USDA's November projection of corn and soybean supply and use could be characterized as negative, prices of both commodities moved higher following the report. A typical post-harvest rally appears to be occurring as interior basis levels are generally strengthening as well. The strengthening of the basis is expected to continue through mid-December. Robust export sales should also be supportive to soybean future prices. Opportunities to price some of the 2001 corn and soybean crops should present themselves over the next four weeks. With large supplies confirmed, however, potential price increases may be limited. December 2001 futures have a gap above \$2.10 that may be filled, but that contract may have limited ability to move above \$2.16. January 2002 soybean futures appear ready to fill the gap left after the October report. Near term potential may be in the \$4.60 to \$4.70 area.

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